

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

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| COMMONWEALTH EDISON COMPANY |) | |
| |) | Docket No. 07-0566 |
| Proposed general increase in electric rates |) | |

SUPPLEMENTAL REBUTTAL TESTIMONY OF DAVID J. EFFRON

ON BEHALF OF

THE PEOPLE OF THE STATE OF ILLINOIS

and

THE CITIZENS UTILITY BOARD

AG/CUB Exhibit (DJE) 8.0

APRIL 18, 2008

1 **Q. Please state your name and business address.**

2 A. My name is David J. Effron. My address is 12 Pond Path, North Hampton, New
3 Hampshire, 03862.

4

5 **Q. Have you previously submitted testimony in this docket?**

6 A. Yes. I submitted Direct Testimony on February 11, 2008, marked as AG/CUB
7 Exhibit 2.0 and Rebuttal Testimony on April 8, 2008, marked as AG/CUB Exhibit
8 5.0. My qualifications and experience are included with my Direct Testimony.

9

10 **Q. What is the purpose of this supplemental rebuttal testimony?**

11 A. In my rebuttal testimony, I proposed certain adjustments to the plant in service and
12 accumulated depreciation as presented by ComEd in the determination of its rate
13 base. On April 10, 2008 a “Stipulation Concerning Incorporation of Certain
14 Adjustments from the Original Cost Audit and Resolution of Certain Revenue
15 Requirement and Other Issues” (“Stipulation”) was filed with the Commission.
16 The Stipulation includes, among other matters, an agreement between Staff and
17 ComEd regarding certain adjustments to rate base proposed by ComEd in this
18 proceeding. To the extent that the Stipulation is incorporated into the Company’s
19 proposed rate base, my proposed adjustments to the Company’s rate base are
20 affected. The purpose of this Supplemental Rebuttal Testimony is to quantify the
21 effect of changes to the Company’s position as I understand them in the
22 Stipulation on my proposed adjustments to plant in service, accumulated
23 depreciation, accumulated deferred income taxes (“ADIT”), new business

1 revenue, and depreciation expense. I also explain why adjustments to state
2 accumulated depreciation and ADIT on a basis that is consistent with the pro
3 forma plant in service included in rate base are still appropriate even if the
4 adjustment for post test year plant additions is modified to eliminate additions
5 forecasted to take place after June 30, 2008, as was done in the Stipulation.

6

7 **Q. Please explain your understanding of the Stipulation as it affects the**
8 **determination of rate base in this case.**

9 A. Staff and ComEd have agreed to certain adjustments to plant in service,
10 accumulated depreciation, ADIT, and depreciation expense related to the Original
11 Cost Audit (“OCA”), as summarized on ICC Staff Exhibit 15.0, Schedule 15.1.
12 Staff and ComEd have also agreed to limit the Company’s pro forma adjustment
13 to rate base for post-test year plant additions to those additions that actually go in
14 to service by June 30, 2008. In addition, in its direct testimony Staff had
15 proposed to deduct the accumulated depreciation as of December 31, 2007 from
16 plant in service as of the same date in the determination of rate base. Although
17 Staff’s rate base in its rebuttal testimony now includes plant in service through
18 June 30, 2008, Staff’s revised schedules following the Stipulation no longer
19 recognize any growth in the balance of accumulated depreciation beyond
20 December 31, 2006, the end of the test year.

21

22 **Q. Would incorporation of the Stipulation into the Company’s position affect any**
23 **of your proposed adjustments?**

1 A. Yes. My proposed adjustments to plant in service, accumulated depreciation,
2 ADIT, new business revenue, and depreciation expense in my rebuttal testimony
3 are all based on the Company's pro forma adjustment to rate base for plant
4 additions through September 30, 2008. If the Company's pro forma adjustment is
5 modified to eliminate additions from July 1, 2008 through September 30, 2008,
6 my proposed adjustment to the Company's position must be revised accordingly.

7

8 **Q Is it still appropriate to recognize post-test year growth in the balances of**
9 **accumulated depreciation and ADIT if the adjustment for post-test year plant**
10 **additions is limited to additions taking place through June 30, 2008?**

11 A. Yes. The elimination of additions to plant in service subsequent to June 30, 2008
12 mitigates the Company's mismatch between plant in service and accumulated
13 depreciation and ADIT. However, it does not eliminate that mismatch. Inclusion
14 of plant in service as of June 30, 2008 in rate base while recognizing accumulated
15 depreciation and ADIT as of December 31, 2006 might be less of a mismatch than
16 the inclusion of plant in service as of September 30, 2008 while recognizing
17 accumulated depreciation and ADIT as of December 31, 2006. However, it is still a
18 substantial mismatch by any measure. All of the points in my previous testimony
19 as to why the accumulated depreciation and ADIT must be adjusted to achieve a
20 proper matching between the gross plant in service included in rate base and the
21 accumulated depreciation and ADIT deducted from that gross plant are still valid in
22 principle. (*See* AG/CUB Ex. (DJE) 2.0 7-10 and AG/CUB Ex. (DJE) 5.0 at 5-21.).
23 However, the necessary adjustments to properly match plant in service to

1 accumulated depreciation and ADIT must be modified if the plant additions
2 included in rate base do not extend beyond June 30, 2008.

3

4 **Q. Have you put together an exhibit showing what the revised adjustments to**
5 **plant in service, accumulated depreciation, ADIT, new business revenue and**
6 **depreciation expense would be if the plant additions included in rate base do**
7 **not extend beyond June 30, 2008?**

8 A. Yes. In both my Direct and Rebuttal Testimony, I used the Company's position as
9 my starting point. Therefore, it is necessary to modify that starting point if the plant
10 additions beyond June 30, 2008 are eliminated from the Company's position. To
11 do so, I have relied on the presentation on Staff Schedules 15.1 and 15.2, as carried
12 forward to Staff Schedules 14.2 and 14.4. I have assumed that Staff has accurately
13 reflected the intent of the Stipulation and that the Company's position would be
14 modified exactly as presented by Staff in those schedules. My adjustments to the
15 Company's rebuttal position to incorporate the Stipulation are shown on what I
16 have designated as Schedule B (Rev.) for rate base and Schedule C (Rev.) for
17 operating income (AG/CUB Exhibit (DJE) 9.1). I have then used the "Company
18 Revised Position" as indicated on those schedules as the starting point for
19 quantifying the adjustments to plant in service, accumulated depreciation, ADIT,
20 new business revenue, and depreciation expense if the plant additions beyond
21 June 30, 2008 are eliminated from the Company's position. I refer to these as
22 "revised" adjustments in the following testimony.

23

1 **Q. Please explain your revised adjustment to plant in service.**

2 A. My revised adjustment to plant in service is shown on my Schedule B-1. I have
3 adjusted the Company's forecasted additions for the months March through June of
4 2008 based on the actual rate of plant additions in 2007¹. I have assumed that there
5 is no modification to the plant retirements because none is reflected in Staff's
6 rebuttal schedules, although it would be logically consistent to modify the forecast
7 of retirements to eliminate the retirements projected to take place after June 30,
8 2008. As can be seen on Schedule B-1, my revised adjustment is a reduction of
9 \$49,544,000 to distribution plant in service and a reduction of \$1,374,000 to
10 general plant in service. Because the Stipulation specifies that no more than the
11 actual plant additions through June 30, 2008 can be included in the final rate base
12 determination, this adjustment would now be little more than a place holder.

13

14 **Q. Please explain your revised adjustment to accumulated depreciation.**

15 A. My revised adjustment to accumulated depreciation is shown on Schedule B-1.1.
16 My adjustment now begins with the actual accumulated depreciation as of
17 December 31, 2007 (similar to Staff's position in its direct testimony) and then
18 recognizes growth in the balance of accumulated depreciation through June 30,
19 2008, consistent with the adjustment for plant additions though June 30, 2008. As
20 with my revised adjustment for plant additions, I have assumed no modification to
21 the forecast of plant retirements in the Company's rebuttal testimony. I have also
22 assumed no modification to the forecast of cost of removal, although it would again

¹ I allocated the modification to the plant additions between distribution plant and general plant based on the Company's proposed pro forma plant in service.

1 be logical to modify the Company's forecast of cost of removal to eliminate the
2 costs projected to take place after June 30, 2008.²

3

4 **Q. Please explain your revised adjustment to ADIT.**

5 A. My revised adjustment to ADIT is shown on Schedule B-2. This adjustment
6 projects the balance of ADIT to June 30, 2008, again to be consistent with the
7 adjustment for plant additions though June 30, 2008. The adjustment to ADIT is
8 based on the actual growth in the balance of ADIT from December 31, 2006 to
9 December 31, 2007.

10

11 **Q. Please explain your revised adjustment to new business revenues.**

12 A. My revised adjustment to new business revenues is shown on Schedule C-1. This
13 adjustment recognizes additional revenue from new customers through June 30,
14 2008. As in my rebuttal testimony, my proposed adjustment to the Company's
15 position reflects the actual customer growth in 2007.³

16

17 **Q. Please explain your revised adjustment to depreciation expense.**

18 A. My revised adjustment to depreciation expense is shown on Schedule C-3. This
19 adjustment is derivative of the revised adjustment to plant in service.

20

² I have reflected Staff's adjustment on Schedule 15.2 as an increase to depreciation reserve, just as it appears on Staff Schedules 15.2 and 14.4. I believe that the adjustment should actually be a decrease to the depreciation reserve; however whether it is an increase or decrease ultimately has no effect on my proposed balance of accumulated depreciation on my Schedule B.

³ The adjustment also reflects the difference between the forecasted 2008 growth in the response to AG Data Request 10.15 and the forecasted growth in 2008 in Company Workpaper WPC-2.16. Elimination of this difference for the third quarter of 2008 has a small effect on my proposed adjustment.

1 **Q. By filing this supplemental rebuttal testimony are you taking the position that**
2 **the Stipulation is reasonable or would be reasonable with the adjustments that**
3 **you are proposing?**

4 A. No, I am not. Staff agreed in the Stipulation that it will not advocate that any
5 conclusions or recommendations identified in the OCA Report should be adopted
6 or ordered by the Commission in the Audit Docket or that any adjustments
7 identified in the Audit Report should be made except as set forth in the
8 Stipulation. Therefore, a review of the audit itself is necessary to determine
9 whether Staff's agreement not to advocate the adoption of the auditors'
10 recommendations is in ratepayers' best interests. I have not had an opportunity to
11 review the report on the OCA referenced in the Stipulation at the time of the
12 preparation of this supplemental rebuttal testimony.

13

14 **Q. Have you recalculated what the Company's revenue deficiency would be with**
15 **the stipulated OCA adjustment and with the plant additions beyond June 30,**
16 **2008 eliminated from the pro forma rate base?**

17 A. Yes. On my Schedule A of AG/CUB Exhibit (DJE) 8.1, I have calculated that the
18 Company's revenue deficiency would be \$30,804,000.

19

20 **Q. Does this conclude your Supplemental Rebuttal Testimony?**

21 A. Yes.

22